

*The following information pertaining to Employers Insurance of Wausau Mutual Holding Company is submitted to the OCI pursuant to Section 644.07(4)(b)(6).*

A business plan of the mutual holding company for the first 5 years of operation.

Please see attached.

# Employers Insurance Company of Wausau

## Financial Statements - Assumptions<sup>1</sup>

### Income Statement

Employers Insurance of Wausau (EIOW) is 16% of the Liberty Mutual Intercompany Reinsurance pool as of 1/1/2000. The company's pool participation in 1999 was 13%. All numbers are statutory.

Direct Written Premium (DWP) for 2000 is expected to be approximately \$785 million. In subsequent years, DWP is expected to grow from \$805 million in 2001 to \$1 billion in 2005. Net Written Premium (NWP) for 2000, after reinsurance through the Liberty Mutual pool, is expected to be \$1.2 billion. The pool's NWP in subsequent years is projected to grow modestly in 2001 at 2.6% and 5.6% in subsequent years. Expected underwriting ratios are summarized below.

Investment income is not pooled but is a function of the total invested assets at the company.

### Summary Assumptions:

- Post-2001 annual NPW growth rate of 5.6%
- Key ratios:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003+</u>
● NWP retention:	92.8%	92.8%	92.8%	92.8%
● Loss Ratio:	71.4%	70.0%	69.6%	69.6%
● LAE Ratio:	15.8%	15.5%	15.5%	15.5%
● Other Underwriting Exp.:	23.9%	22.9%	22.3%	22.3%
● Dividend ratio:	1.5%	1.4%	1.4%	1.4%
● Total Combined ratio:	112.6%	109.9%	108.9%	108.9%
- Net investment income yield, prior to debt service, is 6.4%. Investment income on the income statement is net of annual debt service on the \$220 million surplus notes (\$9.9 million per year)
- Other income (loss) represents estimated premium balances charged off
- Realized capital gains represents a conservative estimate of annual gains to be realized, primarily from alternative (private equity) investments
- Tax assumptions include the full use of existing NOLs during the forecast period, resulting in a 2% AMT effective tax rate
- No dividends to parent or other surplus changes assumed

### Balance Sheet

Cash and Invested Assets are not pooled items, but do reflect initial invested assets and additional assets transferred as a result of increased pool reserve amounts in 2000. Subsequent year balances increase by the amount of cash generated by the business. The premium receivable balance grows in proportion to net premium growth. Other assets are divided between pooled and non-pooled items.

Loss and LAE reserves and unearned premium reserves reflect the increased pool percentage in 2000. Other liabilities are divided between pooled and non-pooled items.

Wausau's total surplus includes a \$220 million surplus note. Surplus growth in all years represents the retained earnings of the business.

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<sup>1</sup> Certain Financial Statement Assumptions are based on current and historical trends and management's expectations for future performance. There can be no assurance that actual performance will be consistent with the assumptions contained herein.

**Employers Insurance Company of Wausau**

**Projected Statutory Balance Sheet**

(Thousands of Dollars)

	<u>Actual</u> <u>1999</u>	<u>Proforma</u> <u>2000</u>	<u>Projected</u> <u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct Written Premium	\$776,685	\$784,689	\$804,875	\$850,074	\$897,815	\$948,242	\$1,001,506
Net Written Premium	1,110,081	1,201,928	1,232,956	1,302,204	1,375,348	1,452,607	1,534,214
Net Premiums Earned	897,572	1,158,947	1,217,979	1,273,607	1,345,130	1,420,676	1,500,473
Losses Incurred	671,420	828,053	852,874	887,039	936,790	989,336	1,044,834
Loss Adjustment Expense	152,649	182,720	189,221	197,628	208,673	220,336	232,653
Other Underwriting Expenses	<u>216,077</u>	<u>286,993</u>	<u>282,371</u>	<u>290,362</u>	<u>306,620</u>	<u>323,790</u>	<u>341,922</u>
Earnings Before Policyholder Dividends	(142,574)	(138,820)	(106,488)	(101,423)	(106,953)	(112,785)	(118,936)
Policyholder Dividends	<u>15,072</u>	16,949	17,448	18,212	19,200	20,242	21,341
Underwriting Gain (Loss)	(157,646)	(155,768)	(123,936)	(119,635)	(126,154)	(133,028)	(140,277)
Net Investment Income	145,296	179,669	181,678	191,063	201,275	212,379	224,335
Reserve Releases/(Strengthen)	0	0	0	0	0	0	0
Other Income	<u>(8,975)</u>	<u>(2,404)</u>	<u>(2,466)</u>	<u>(2,604)</u>	<u>(2,751)</u>	<u>(2,905)</u>	<u>(3,068)</u>
Pre-Tax Operating Income	(21,325)	21,496	55,277	68,824	72,371	76,446	80,991
Net Realized Capital Gains	<u>89,450</u>	<u>33,023</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
Pre-Tax Income	68,125	54,520	80,277	93,824	97,371	101,446	105,991
Federal Income Taxes	<u>1</u>	<u>1,090</u>	<u>1,606</u>	<u>1,876</u>	<u>1,947</u>	<u>2,029</u>	<u>2,120</u>
<b>Net Income (Loss)</b>	<b>\$68,124</b>	<b>\$53,429</b>	<b>\$78,671</b>	<b>\$91,948</b>	<b>\$95,423</b>	<b>\$99,417</b>	<b>\$103,871</b>
Total Surplus, Beginning of Year	\$574,999	\$668,805	\$722,234	\$800,906	\$892,853	\$988,277	\$1,087,694
Net Income	68,124	53,429	78,671	91,948	95,423	99,417	103,871
Net Unrealized Capital Gains/(Losses)	(2,469)	0	0	0	0	0	0
Capital Contributions/(Dividends Paid)	0	0	0	0	0	0	0
Non-cash Changes in Surplus	301,861	0	0	0	0	0	0
Cash Changes in Surplus	<u>(273,712)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Surplus, End of Year	\$668,805	\$722,234	\$800,906	\$892,853	\$988,277	\$1,087,694	\$1,191,565

*Assumptions:*

Read note

**LMG Pool Participation**

	<u>Actual</u>	<u>Proforma</u>	<u>Projected</u>				
	13%	<b>16%</b>					
Direct Written Premiums Growth Rate	10.3%	1.0%	2.6%	5.6%	5.6%	5.6%	5.6%
NWP Retention	85.7%	92.8%	92.8%	92.8%	92.8%	92.8%	92.8%
Net Written Premiums Growth Rate	63.2%	8.3%	2.6%	5.6%	5.6%	5.6%	5.6%
Loss Ratio as % of EP	74.8%	71.4%	70.0%	69.6%	69.6%	69.6%	69.6%
LAE Ratio as % of EP	17.0%	15.8%	15.5%	15.5%	15.5%	15.5%	15.5%
Other Underwriting Expense Ratio as % of WP	19.5%	23.9%	22.9%	22.3%	22.3%	22.3%	22.3%
Dividend Ratio as % of EP	<u>1.7%</u>	<u>1.5%</u>	<u>1.4%</u>	<u>1.4%</u>	<u>1.4%</u>	<u>1.4%</u>	<u>1.4%</u>
<b>Combined Ratio</b>	<b>113.0%</b>	<b>112.6%</b>	<b>109.9%</b>	<b>108.9%</b>	<b>108.9%</b>	<b>108.9%</b>	<b>108.8%</b>
Net Investment Income Yield	6.3%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Other Income Growth Rate	142.4%	0.0%	2.6%	5.6%	5.6%	5.6%	5.6%
Effective Tax Rate	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
After-tax Profit Margin	7.6%	4.6%	6.5%	7.2%	7.1%	7.0%	6.9%
Return on Average Surplus	11.0%	7.7%	10.3%	10.9%	10.1%	9.6%	9.1%

**Employers Insurance Company of Wausau**

<b>Projected Statutory Balance Sheet</b>							
(Thousands of Dollars)							
	<b>Actual 1999</b>	<b>Proforma 2000</b>	<b>Projected 2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Total Invested Assets	\$2,439,375	\$2,915,133	\$3,055,953	\$3,208,130	\$3,375,054	\$3,554,701	\$3,748,254
Premiums Receivable	207,526	282,790	290,091	306,384	323,593	341,771	360,971
Other Pooled Assets	244,488	415,816	429,734	445,343	462,375	480,586	500,081
Other Non-Pooled Assets	315,984	394,925	412,634	432,751	454,735	478,344	503,725
<b>TOTAL ASSETS</b>	<b>\$3,207,373</b>	<b>\$4,008,664</b>	<b>\$4,188,411</b>	<b>\$4,392,607</b>	<b>\$4,615,757</b>	<b>\$4,855,402</b>	<b>\$5,113,031</b>
<b>LIABILITIES</b>							
Loss and LAE Reserves	\$2,001,546	2,541,928	2,617,834	2,690,165	2,774,792	2,868,948	2,973,459
Unearned Premium Reserves	295,136	406,225	421,202	449,799	480,017	511,948	545,688
Other Pooled Liabilities	171,910	247,686	255,093	263,319	272,679	282,955	294,223
Other Non-Pooled Liabilities	69,976	90,591	93,378	96,472	99,993	103,858	108,096
Borrowed Money	0	0	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>2,538,568</b>	<b>3,286,430</b>	<b>3,387,506</b>	<b>3,499,754</b>	<b>3,627,480</b>	<b>3,767,708</b>	<b>3,921,466</b>
<b>CAPITAL</b>							
Common Stock	0	0	0	0	0	0	0
Preferred Stock	0	0	0	0	0	0	0
Surplus Notes	220,000	220,000	220,000	220,000	220,000	220,000	220,000
Surplus	448,805	502,234	580,906	672,853	768,277	867,694	971,565
<b>TOTAL CAPITAL</b>	<b>668,805</b>	<b>722,234</b>	<b>800,906</b>	<b>892,853</b>	<b>988,277</b>	<b>1,087,694</b>	<b>1,191,565</b>
<b>LIABILITIES &amp; CAPITAL</b>	<b>\$3,207,373</b>	<b>\$4,008,664</b>	<b>\$4,188,411</b>	<b>\$4,392,607</b>	<b>\$4,615,757</b>	<b>\$4,855,402</b>	<b>\$5,113,031</b>
<i>NWP / Surplus Ratio</i>	1.66	1.66	1.54	1.46	1.39	1.34	1.29
<i>Loss and LAE Reserves / Surplus</i>	2.99	3.52	3.27	3.01	2.81	2.64	2.50
		\$0					

Assumptions:

Invested Assets reflect changes from Net Cash Flow.

Premiums receivable reflect the growth rate of NWP.

Other Pooled Assets are equal to the company's proportionate share of total Other Pooled Assets. The Other Non-Pooled Assets are projected to remain as a constant percentage of Total Assets.

Loss & LAE Reserves are equal to beginning reserves plus accident year losses incurred minus all accident years losses paid.

Unearned Premiums are equal to beginning UPR + NPW - NPE.

Other Pooled Liabilities are equal to the company's proportionate share of total Other Pooled Liabilities. The Other Non-Pooled Liabilities are projected to remain as a constant percentage of Total Liabilities.